wealthify

GUIDE TO ETHICAL INVESTING

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Investing isn't just about trying to make profits. It can also benefit society as a whole and help protect the environment if you decide to invest in companies and organisations that can demonstrate high ethical standards. You could be making a positive impact on society and the environment while giving your money a little boost. This is more commonly known as ethical investing, and this guide will help you understand how it works.

What is ethical investing?

Ethical investing can mean different things to different people and institutions. Sustainable Investing, Socially Responsible Investing, Values Investing, ESG Investing are just some of the terms used, often interchangeably, and often with distinctive definitions. But generally speaking, when you're investing ethically, you're typically giving your money a chance to grow while supporting organisations that are committed to doing their bit for the future. This is usually done by filtering out harmful activities and including companies that are striving to make a positive difference.

Ethical investing has been around for a while. Back in the 1800s, religious groups, like Methodists and Muslims, wanted to enjoy the benefits of investing, but needed to follow strict guidelines and ethics – this is believed to be when ethical investing made its first appearance. The concept of ethical investing developed again in the 1960s, with American students protesting against universities who invested their fees against their ethics. Institutions, such as Harvard and Yale, accepted their demands and blocked out investments which supported, for example, the war in Vietnam or the apartheid in South Africa.

Fast forward to today, and ethical investing is becoming a fast-growing part of the investment world. In 2018, in the UK alone, there was an estimated £19 billion held in ethical funds - think of them as hampers full of ethical investments[1]. Also, according to our own study, a third (32%) of non-investors would consider investing if they could do it ethically[2]. More interestingly, ethical investing seems to be popular with women and young people. Indeed, our research showed that 33% of female non-investors might consider investing if they could do so in a sustainable way, compared to 29% of male non-investors. And about 45% of 18-34-year olds said they would consider dipping their toe in the investment world if they could open an ethical Plan, compared to 31% of those aged 35-54, and 22% of those aged over 55[2].

How to invest ethically?

Before investing ethically, make sure you consider the following things:

Know your principles
The word 'ethical' can be defined as doing what's morally right. It may sound simple, but in practice, behaving in an ethical way isn't always easy. The main hurdle is that the term 'ethical' will mean different things to different people. Take controversial topics, like nuclear energy or war, and you'll likely find people holding contrasting opinions on the matters. As a result, there's no way for ethical investing to cater for everyone's tastes, so you'll need to make some concessions and accept that your Plan may not be in line with all your values. With this in mind, it's a good idea to know which ones of your principles you'd like to see reflected in your ethical Plan. This will help you make the right decisions when starting your ethical journey.

Choose the investing route you prefer
When it comes to ethical investing, it's important to choose the route that suits your needs. For instance, you could pick your own ethical investments using a DIY platform so that you have full control over what is included in your Plan. However, doing the investing yourself can be time-consuming and requires some financial knowledge, as you'll need to research companies and analyse markets yourself. If you're too busy or not confident enough to do it all by yourself, it could be worth looking at other options. With digital investment platforms, like Wealthify, investing has never been easier! All you need to do is choose how much you want to invest and the risk level you're most comfortable with. And you don't need any previous experience or much investment knowledge since we'll do the hard work for you, from starting you off with building your Ethical Plan through to managing it on an ongoing basis.

Consider diversifying your portfolio
It's often assumed that ethical investing offers less choice, but the truth is that there are thousands of ethical investments available on many different financial markets. So, just like any other type of investing, you should be able to spread your risk by buying a large number of investments and putting your money in many different markets. In the investment world, this strategy is known as diversification, and it's commonly used to decrease the likelihood of losing everything. Your money is spread across investments and regions, and any poorly performing investments should be balanced out by other investments that are doing well.

Try to remain invested over the long-term
If you're investing, whether it's ethically or not, you may want to try and remain invested for a number of years. Why, you ask? Well, according to many studies, the longer you stick with your investments, the more likely you are to earn positive returns. For example, say you put £1,000 in a Wealthify Ethical Plan and hold onto your investments for 15 years. After this period of time, you could get £1,534[3]. Now, imagine if you had waited another 10 years, you could have ended with £2,141 – that's an extra £607[4]. Try our Projected Value Calculator to see how much your investment Plan could be worth over time.

What are ethical investment funds?

If you're using a digital investment platform, like Wealthify, your money will typically be invested in ethical funds. Here's how they work:

Negative and positive screenings
Ethical funds are an effortless way to invest, but they aren't created equally. Many funds will perform negative screenings to exclude activities that are seen as harmful to society and the environment. One thing to keep in mind though is that exclusion policies will vary from one fund to the next. Some will just focus on filtering out the so-called 'sin stocks' – any organisations involved in tobacco, gambling, weapons, and adult entertainment. Others may go a bit further and exclude other activities and sectors, such as animal testing and deforestation. Ethical funds will also have different levels of tolerance. For example, some remove unsustainable activities completely, while others may allow investments in companies involved in harmful sectors as long as they earn no more than 10% of their overall profits from the harmful activity in question.

Screening out activities isn't the only thing ethical funds can do. Many will carry out positive screenings to proactively seek out organisations that are committed to having a positive impact on society and the environment. When selecting companies, funds will look at ESG (environment, society, and governance) criteria and assess things like how much non-renewable energy a company uses, how well it champions gender equality, and how transparent it is with its stakeholders and shareholders. Each company will be given an ESG score and the higher their rating is, the more likely they are to be included in the fund. But it's not just best of breed companies that get selected. Organisations that are working hard to improve their practices will also be considered.

Active vs passive ethical funds
Ethical funds can either be active or passive. With actively managed funds, there'll typically be a fund manager constantly monitoring what companies are doing to make sure they're maintaining their high ethical standards. And that's not all! Fund managers can also use their shareholder voting power to influence ESG policies as well as the overall strategic direction of companies they've invested in. Active funds involve a great amount of work, and as a consequence, will cost a bit more compared to other types of funds. On the other hand, passive funds are cheaper, but they're not designed to push for change and dig into company's credentials. Also, they select companies using a fixed and rigid ESG score that looks at things in black and white and tends to ignore companies that are striving to do better. At Wealthify, we believe that investing in active funds is the only way to build portfolios that are truly ethical, as we conduct thorough research and due diligence.

Does ethical investing mean lower performance?

Many people believe that ethical investing has a negative impact on potential returns, and yet many studies suggest that ethical investments tend to perform just as well as other types of investments. For instance, let's compare the FTSE All Shares, which lists over 600 UK companies, and the FTSE4Good, which solely focuses on companies striving to do good. Between September 2013 and 2018, the FTSE All Share returned 43.4%, compared to 44.1% for its ethical counterpart[5]. Put simply, if you had £100 invested in each of these markets during this specific time period, you would have noticed around a 70 pence difference in what you may have gained.

Invest ethically with Wealthify

Investing ethically is easy and with robo-investing platforms, like Wealthify, you can open an Ethical Plan in just a few taps.

What's in a Wealthify Ethical Plan?

Our Ethical Plans can contain up to 25 investment funds from specialist providers, like Kames Capital and EdenTree. We make sure to invest in a wide variety of funds as it will benefit investors who are looking for diversity in their Plans. The ethical funds we use will directly exclude things like tobacco, weapons, adult entertainment, gambling, nuclear power, and unfair labour practices. More importantly, funds will have different tolerance thresholds with some completely excluding companies that profit from harmful activities while others are willing to invest in such organisations if less than 10% of their overall profits derive from these kinds of activities. Although our fund providers have different tolerance levels, our aim is always to be as close to 0% as possible. The different levels of tolerance allow our Investment team to create value for our customers without compromising their ethics. We will also use active ethical funds that are investing in companies committed to operating in a sustainable way and keeping a constant eye on their activities and practices.

Why open a Wealthify Ethical Plan?

Use your money to do good.
Our active Ethical Plans are more thorough than passive ones. We don't just have a set criterion to support businesses who hit certain scores. We take an active approach and do our own research and due diligence; this means we invest in companies that are changing for the better as well as those already leading the way.

There's no minimum investment.
If you can't afford to put big sums in your Ethical Plan, that's absolutely fine. With Wealthify, it's possible to invest as little or as much as you want, whether that's £10 or £10,000.

We do the hard work for you.
With Wealthify, you don't need much financial knowledge or experience to start investing. Our investment managers are here to look after your money and make all the investing decisions for you - from picking the right investments and building your Ethical Plan through to making adjustments to keep it on track.

You're always in control.
Although we manage your Plan for you, you'll remain in control. With our online investing platform, you can easily check how your investments are performing at anytime, anywhere.

We keep our fees low.
At Wealthify, we offer an affordable way to manage your Ethical Plan, allowing you to keep more of your money. We take a simple annual fee of 0.6% for managing your investments. And as with most investments, other costs, including fund charges and transaction costs, will apply, but we make sure to keep these as low as possible. Visit our fee page to view our charges.

How to open a Wealthify Ethical Plan
Whether you're looking for a General Investment Account, a Stocks and Shares ISA, or a Junior ISA, opening a Wealthify Ethical Plan is simple. You'll just need to select the amount you'd like to invest, choose the risk level that suits your needs, and switch the 'ethical' toggle on. We'll do the investing, choosing only ethical funds, and you can rest assured that your investments are in line with your values.

1: https://www.eirisfoundation.org/mission-and-money-aligned-charities-and-responsible-investment-2-2/

2: Research conducted by Opinium Research among an online panel of 2,004 nationally representative UK adults (aged 18+), between 14th to 17th September 2018. Results have been weighted to nationally representative criteria.

3: This is the projected value for a Confident Plan (Medium Risk Plan). This is only a forecast and is not a reliable indicator of future performance. If markets perform worse, your return could be £1,004. If markets perform better, your return could be £2,285. Values correct as of 16/01/20.

4: This is the projected value for a Confident Plan (Medium Risk Plan). This is only a forecast and is not a reliable indicator of future performance. If markets perform worse, your return could be £1,257. If markets perform better, your return could be £3,782. Values correct as of 16/01/20.

5: Data from Bloomberg

* 'Simulated' returns are so named as they are based on the performance of a model which identically mirrors the decisions we take on customers' Plans. It is based on an account size that is over £500 and assumes that our maximum Wealthify fee of 0.60% is taken, as well as underlying fund costs. Individual customer returns may deviate slightly from the model figures, particularly those customers who may have added to or withdrawn from their Plans throughout the year or have a different fee rate.

The tax treatment depends on your individual circumstances and may be subject to change in the future.

Past performance is not a reliable indicator of future results.

Please remember the value of your investments can go down as well as up, and you could get back less than invested.

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